ETION

Unaudited Condensed Consolidated Interim Financial Statements

for the period ended

30 September

2019

Create | Digitise | Connect | Secure

KEY FEATURES

Comparing 1H19 to 1H18:

Revenue increased 14.7% from R269.1 m to R308.6 m

Gross profit margin reduced 2.3% from 36.9% to 34.6%

EBITDA increased 152.8% from R8.9 m to R22.5 m

Cash on hand up 91% and almost double the amount for the full year 2019

Profit after tax increased 325% from a loss of R2.4 m to a profit of R5.4 m

Headline and basic earnings per share increased 294% from
a loss of 0.5 cents to 0.97 cents

ETION LIMITED
("Etion" or "the company" or "the Group")
(Incorporated in the Republic of South Africa)
(Registration Number: 1987/001222/06)
Share Code: ETO
ISIN: ZAE000097028

Condensed consolidated statement of financial position

As at 30 September 2019

	Notes	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
		R'000	R'000	R'000
Assets				
Non-current assets		**300 384**	265 624	261 831
Property, plant and equipment		**45 326**	50 879	48 455
Right-of-use assets		**31 238**	-	-
Intangible assets		**190 806**	191 468	191 421
Deferred tax asset		**32 058**	19 917	20 945
Other financial assets		**956**	3 360	1 010
Current assets		**315 646**	328 327	285 379
Inventories	4	**66 401**	138 819	87 549
Loan to related company		**2 330**	-	2 330
Trade and other receivables	5	**146 877**	147 061	163 630
Contract assets		**12 467**	-	18 927
Current tax receivable		**9 150**	7 047	7 566
Cash and cash equivalents		**78 421**	35 400	50 611
Total assets		**616 030**	593 951	592 444
Equity and liabilities				
Equity		**350 186**	312 389	343 294
Share capital		**259 541**	232 241	259 541
Accumulated profit		**90 645**	80 148	83 753
Non-current liabilities		**70 446**	76 557	42 542
Interest bearing borrowings	6	**55 146**	69 990	32 968
Contract liabilities		**274**	-	274
Deferred tax liability		**15 026**	6 567	9 300
Current liabilities		**195 398**	205 005	206 608
Provisions		**1 242**	3 070	1 890
Interest bearing borrowings	6	**48 082**	37 777	43 522
Trade and other payables	7	**120 399**	146 367	132 175
Contract liabilities		**16 398**	-	14 918
Current tax payable		**2 554**	-	970
Bank overdrafts		**6 723**	17 791	13 133
Total equity and liabilities		**616 030**	593 951	592 444

Condensed consolidated statement of comprehensive income

For the 6 months ended 30 September 2019

	Note	**6 months ended 30 September 2019 (Unaudited)**	6 months ended 30 September 2018 (Unaudited)	Year ended 31 March 2019 (Audited)
		R'000	R'000	R'000
Revenue		**308 573**	269 093	595 939
Cost of sales		**(201 891)**	(169 877)	(415 326)
Gross profit		**106 682**	99 216	180 613
Other operating income		**2 959**	2 092	4 877
Administrative and operating costs		**(99 747)**	(91 689)	(166 360)
Other (losses)/ gains		**83**	(8 127)	(8 956)
Operating profit		**9 977**	1 492	10 174
Finance income		**1 126**	698	1 717
Finance costs		**(5 656)**	(5 996)	(11 262)
Profit/ (Loss) before taxation		**5 447**	(3 806)	629
Taxation		**(13)**	1 420	(3 359)
Net profit/ (loss) or the period		**5 434**	(2 386)	(2 730)
Total comprehensive income for the period		**5 434**	(2 386)	(2 730)
Attributable to:				
Equity holders of the company		**5 434**	(2 386)	(2 730)
Non-controlling interest		**-**	-	-
		5 434	(2 386)	(2 730)
Basic and diluted earnings per share (cents)	3	**0.97**	(0.5)	(0.53)

Condensed consolidated statement of cash flows

For the 6 months ended 30 September 2019

	6 months ended 30 September 2019 (Unaudited)	6 months ended 30 September 2018 (Unaudited)	Year ended 31 March 2019 (Audited)
	R'000	R'000	R'000
Cash flows from operating activities			
Cash receipts from customers	**326 617**	243 670	561 283
Cash paid to suppliers and employees	**(268 269)**	(249 059)	(527 513)
Cash generated from/ (utilised in - operations	**58 357**	(5 389)	33 770
Finance cost	**(1 847)**	(5 996)	(4 668)
Finance income	**1 126**	698	1 717
Taxation paid	**(5 968)**	(7 087)	(11 277)
Net cash flow generated from/ (utilised in) operating activities	**51 668**	(17 774)	19 542
Cash flows from investing activities			
Purchase of property, plant and equipment	**(597)**	(1 388)	(2 921)
Proceeds from disposal of property, plant and equipment	**4**	-	435
Cash payment for acquisition of subsidiary net of cash acquired	**-**	(62 103)	(63 103)
Purchase of intangible assets	**(5 258)**	(6 590)	(10 514)
Net cash flow utilised in investing activities	**(5 851)**	(70 081)	(76 103)
Cash flows from financing activities			
Proceeds on share issue	**-**	-	27 300
Proceeds from interest bearing borrowings	**-**	70 519	58 038
Repayment of interest bearing borrowings	**(11 254)**	-	(25 391)
Net cash flow (utilised in)/ generated from financing activities	**(11 254)**	70 519	59 947
Net increase/ (decrease) in cash, cash equivalents and bank overdrafts	**34 563**	(17 336)	3 386
Cash, cash equivalents and bank overdrafts at beginning of period	**37 478**	41 254	41 254
Unrealised foreign exchange adjustment	**(343)**	(6 309)	(7 162)
Cash, cash equivalents and bank overdrafts at end of period	**71 698**	17 609	37 478

Condensed consolidated statement of changes in equity

For the 6 months ended 30 September 2019

	Notes	Isssued share capital	Accumulated Profit/ (losses)	Total
		R'000	R'000	R'000
Balance as at 1 April 2018, as previously reported (Audited)		212 141	90 305	302 446
Adjustment from adoption of IFRS 9, net of tax		-	(3 822)	(3 822)
Restated balance as at 1 April 2018		212 141	86 483	298 624
Movements during the period				
Loss for the period		-	(2 386)	(2 386)
Shares issued as part of the business combination		20 100	-	20 100
Balance as at 30 September 2018 (Unaudited)		232 241	84 097	316 338
Movements during the period				
Loss for the period		-	(344)	(344)
Shares issued for cash		27 300	-	27 300
Balance as at 1 April 2019, as previously reported (Audited)		**259 541**	**83 753**	**343 294**
Adjustment from adoption of IFRS 16, net of tax	1	**-**	**1 458**	**1 458**
Restated balance as at 1 April 2019		**259 541**	**85 211**	**344 752**
Movements during the period				
Profit for the period		**-**	**5 434**	**5 434**
Balance as at 30 September 2019 (Unaudited)		**259 541**	**90 645**	**350 186**

Condensed consolidated segment report

For the 6 months ended 30 September 2019

	6 months ended 30 September 2019 (Unaudited)	6 months ended 30 September 2018 (Restated*) (Unaudited)	Year ended 31 March 2019 (Audited)
	R'000	R'000	R'000
Segment revenue			
Etion Digitise: Safety and Productivity Solutions	**22 312**	14 806	95 819
Etion Create: Original Design Manufacturing	**84 210**	103 738	206 565
Etion Connect: Digital Network Solutions	**102 173**	119 795	246 748
Etion Secure: Cyber Security Solutions (LawTrust)	**114 084**	51 164	106 967
Eliminations	**(14 206)**	(20 410)	(60 160)
Total	**308 573**	269 093	595 939
Segment profit			
Etion Digitise: Safety and Productivity Solutions	**(13 973)**	(7 717)	(834)
Etion Create: Original Design Manufacturing	**4 897**	13 854	20 188
Etion Connect: Digital Network Solutions	**(2 783)**	2 917	13 267
Etion Secure: Cyber Security Solutions (LawTrust)	**20 976**	5 413	5 412
Eliminations	**15 718**	9 340	20 869
Sub total	**24 835**	23 807	58 902
Corporate costs	**(14 858)**	(22 315)	(48 728)
Finance costs	**(5 656)**	(5 996)	(11 262)
Finance income	**1 126**	698	1 717
Profit/ (Loss) before taxation	**5 447**	(3 806)	629
Financial position			
Assets	**616 030**	593 951	592 444
Etion Digitise: Safety and Productivity Solutions	**67 537**	92 923	93 185
Etion Create: Original Design Manufacturing	**214 789**	207 814	205 108
Etion Connect: Digital Network Solutions	**146 101**	186 657	162 904
Etion Secure: Cyber Security Solutions (LawTrust)	**149 684**	106 035	119 045
Corporate	**37 919**	521	12 202
Liabilities	**265 844**	281 562	249 150
Etion Digitise: Safety and Productivity Solutions	**9 438**	16 983	30 485
Etion Create: Original Design Manufacturing	**71 985**	83 026	80 807
Etion Connect: Digital Network Solutions	**54 647**	98 444	69 140
Etion Secure: Cyber Security Solutions (LawTrust)	**53 488**	12 731	29 987
Corporate	**76 286**	70 378	38 731

*Due to the material increase in intersegment transactions the Group has revised the manner in which it reports segment information for the four business segments. Intersegment transactions are now eliminated on a gross basis and not directly from the results of the business segment to which it relates. The comparative information for the 2018 six-month period has been restated.

Condensed consolidated segment report

For the 6 months ended 30 September 2019

The table below shows the the basis on which revenue is recognised:

	Etion Digitise: Safety and Productivity Solutions	Etion Create: Original Design Manufacturing	Etion Connect: Digital Network Solutions	Etion Secure: Cyber Security Solutions (LawTrust)	**Total**
	R'000	R'000	R'000	R'000	**R'000**
Segment revenue					
6 months ended 30 September 2019 (Unaudited)					
At a point in time	20 323	44 228	98 915	56 464	**219 931**
Over time	1 101	26 739	3 199	57 604	**88 642**
	21 424	70 967	102 114	114 068	**308 573**
6 months ended 30 September 2018 (Unaudited)					
At a point in time	14 806	54 076	116 041	125 326	210 249
Over time	-	29 252	3 754	25 838	58 844
	14 806	83 328	119 795	51 164	269 093
Year ended 31 March 2019 (Audited)					
At a point in time	74 161	108 056	234 691	98 631	515 538
Over time	20 917	46 216	4 942	8 336	80 401
	95 078	154 272	239 633	106 956	595 939

Commentary

GROUP PROFILE

Etion Limited is a diversified digital technology solutions provider. We create, digitise, connect and secure both generic and bespoke digital technology solutions to improve the safety, productivity, connectivity and cyber security of our customers, all with one purpose: to advance humanity.

In order to achieve this, we draw on our extensive original design and manufacturing capabilities. We create value by designing and manufacturing customer-designed solutions, by acting as a distributor and a system integrator of technology-based products.

Etion comprises 4 business units: Etion Connect, Etion Create, Etion Secure (LawTrust) and Etion Digitise.

FINANCIAL RESULTS

Revenue for the Group for the reporting period was R308.6 million, up by 14.7% from R269.1 million in the previous corresponding period. The improved performance is driven mainly by the impact of consolidating the results of Secure for a full 6-month period and increased revenue realised from the internationalisation strategy. The Group's performance has benefited from the rollover of revenue from a key project in the Digitise business. Slow revenue growth from Connect has continued into the first half of FY20 due to reduced project spend from our key clients who have invested less due to a number of macro and micro economic factors. Moderate revenue growth has been recorded in Create due to delayed buying from the Middle East clients. We are however encouraged by Create's continued involvement in design and development work which we anticipate will convert into an uptick in requests for production as the cycle turns.

At a gross profit level (R106.7 million), pricing pressure from customers in the Connect business and the impact of the deteriorating rand/dollar exchange rate resulted in a slight deterioration of margins from 36.9% to 34.6%.

Administration and operating expenses increased by R8 million (8.7%) from R91.7 million to R99.7 million. The main contributors to this variance are the consolidation of 6 months of operating expenses attributable to the Secure business (R6.7m) and non-recurring costs incurred during Phase 1 of the Digitise restructure (R3.8m).

The benefit of once off costs of R10 million relating to the acquisition of Secure, the rebranding of the Group, and the restructuring of Connect incurred in the prior year, has been offset by the decline in projects executed during the current period and resultant inability to allocate the related costs to cost of sales.

The Group has a comprehensive foreign exchange hedging framework. During the period under review Etion made use of forward exchange contracts - as opposed to options as in the prior period. This resulted in a reduction of the unrealised foreign exchange losses from a loss of R8.1 million to R0.1m, when restating the trade payables.

Finance costs of R5.7 million have reduced by 27% when excluding interest of R1.3 million in respect of the right-of-use lease liabilities recognised by the group upon implementation of IFRS 16 *Leases*. This was previously included in operating expenses. The saving is largely due to the settlement of the SASFIN bridge finance and improved cash management.

Profit after tax (PAT) increased by 325% from a loss of R2.4 million to a profit of R5.4 million. Basic earnings per share increased by 294% from a loss of 0.56 cents per share to 0.97 cents per share.

CASH FLOW STATEMENT

Focus was placed on those factors within our control, namely: extracting operational efficiencies, costs and increased focus on managing working capital. This has contributed to the significantly improved cash and cash equivalents position of R71,7 million, an increase of 307% on 1H18 and 91% on FY19.

Cash generated from operations increased by R63.8 million from a negative position of R5.4 million to an improved R58.4 million. The net working capital movement for the period, at R35.5 million, was positively impacted by the reduced inventory holdings in Connect. Please refer notes to the financial information for further detail and commentary.

One of the key focus areas of the Group in 2020 will be to improve working capital. The investment in people and systems will enable group finance to improve efficiencies and unlock cash to further pursue growth opportunities.

STATEMENT OF FINANCIAL POSITION

Some of the line items on the statement of financial position that have shown significant changes when compared to September 2018, have been included in the notes to the financial information to give some context and explanation to these movements.

The Group has assessed the impact of IFRS 16, and this has been incorporated into these results. The impacts are detailed in the notes to follow.

STRATEGY AND PERFORMANCE

The Group consists of four operating units (Etion Create, Etion Digitise, Etion Connect and Etion Secure) and a corporate head office. Prior to the current year, the operating units conducted their business with limited group synergies being explored. In line with our strategy to build an integrated business, and in consideration of the current tough trading conditions in the RSA economy, we have effected some changes to our operating model. These changes are aimed at not only consolidating our business and making it more agile and responsive to current market conditions but also at building resilience and sustainability.

The Secure business has effected four strategic initiatives that will accelerate medium term growth and further globalisation. This includes the creation of a Cyber Security Centre offering as a new cyber security line of business, which will generate subscription income as well as uncover opportunities for solutions, and the launch of the Trust Academy to provide training in cyber security. The business has focussed on the MEA market for sales outside SA with an immediate win in Saudi Arabia thereby reducing their revenue concentration risk by 20%. In addition, Secure has been appointed as the sole distributor for the SOLIDguard range of products, designed and manufactured by Etion Create. Secure have increased resources to specifically drive the SOLIDguard product range. Etion Create will however continue to directly support defence clients in the Middle East.

Although Digitise has improved its revenue performance year on year, this growth was largely due to historic contracts which have now been fulfilled. Due to the long procurement cycles and prevailing market conditions, revenues are expected to remain subdued for the foreseeable future, thereby necessitating a reorganisation to align to these market conditions. The initial strategy of investing in engineering capability to design new solutions for new markets has not realised the anticipated levels of revenue. The Digitise division has been streamlined with only a dedicated Rail focused business development capability remaining. It is envisaged that Digitise will leverage off the experience of the Create team for the oversight of all its operational and sales aspects. These changes will allow us to provide added value and improved user experience to our customers, as our offering will be more seamless, owing to better exploitation of our original design capability.

The Connect business has endured downward pressure on revenues over the past few years due to a depressed economy. In the light of these toughening trading conditions, and in keeping with our strategy of defending and growing the Connect business, we will be closely monitoring the cost base while at the same time growing our revenue base. As a result, we have decided to streamline the business and make it more agile, by focussing it on passive connectivity only. Consequently, we intend to reduce the management structure and other parts of the business to match current business needs.

The Create business experienced revenue pressures due to the downward trend of its intercompany revenue stream with Digitise, and moderate revenues from its Middle East Defence business in particular.

The corporate office has also been reorganised and trimmed to meet the challenges outlined above and to make it more focussed in how it supports the four business units. We have implemented cost optimisation initiatives in the marketing team and human resources department, and we have insourced the company secretariat.

As we progress into the second half of 2020 Etion has four optimised business entities, each competitive in its field of excellence and serving local and international customers. The corporate head office will focus on improving efficiencies. We have made good progress in diluting the client concentration risk, and exposure to the public sector and South African market.

ETION CREATE

Contribution to Group revenue | 27%
Contribution to Group profit | 20%
Segment revenue | R84.2 million
Segment profit | R4.9 million
Segment profit excluding head office recovery | R9.3m

During the reporting period, revenue decreased by 19% from R103.7 million to R84.2 million, mainly due to anticipated orders being delayed in the defence sector. Segment profit reduced by 65% as a direct result of the decrease in revenue. While Create did not run at full capacity, due to reduced business during the period under review, we strategically retain our design, engineering and manufacturing capability, a major contributor of our fixed costs, to position the business for the next upswing.

Create, has already noted an uptick in new orders from the Middle East. Continued investment into products and solutions has contributed positively to successful customer engagements in the Middle East which bodes well for future business opportunities in the medium term.

ETION DIGITISE

Contribution to Group revenue | 7%
Contribution to Group profit | -56%
Segment revenue | R22.3 million
Segment loss | R13.9 million
Segment loss excluding head office recovery | R12.5m

During the reporting period, revenue increased by 50% from R14.8 million to R22.3 million, mainly due the rollover of revenue from the delivery of the Integrated Systems Display for a major client.

The Digitise business has been unsuccessful in accessing new markets with our new technologies. Furthermore, the market segment in which this business has traditionally operated has been impacted by extended procurement cycles and budgetary constraints. The strategic review, as noted in the FY19 Integrated Annual Report, has been completed and a phased restructure plan is being implemented. This may lead to additional restructuring costs and potential loss in the foreseeable future.

ETION CONNECT

Contribution to Group revenue | 33%
Contribution to Group profit | -11.2%
Segment revenue | R102.2 million
Segment loss | R2.8 million
Segment profit excluding head office recovery | R3.2m

During the reporting period, revenue decreased by 15% from R119.8 million to R102.2 million due to depressed economic growth in South Africa which has caused operators to monetise past network investments, resulting in reduced capex spend. A negative segment loss has been recorded due to a bad debt write-off (customer liquidation), an increase in the loss allowance provision.

Significant efforts at diversifying the customer base have translated into the receipt of orders from greenfields operators. This is expected to continue in the second half through continued aggressive, yet targeted, pipeline development.

ETION SECURE

Contribution to Group revenue | 37%
Contribution to Group profit | 85%
Segment revenue | R114.1 million
Segment profit | R20.9 million
Segment profit excluding head office recovery | R24.9m

During the reporting period, revenue increased to R114.1 million due to the increased focus on growing international markets and the impact of consolidating revenue for the full 6-month period.

The South African market has generally been under pressure with the main market sectors, of government and financial services, feeling the pressure of the slow economy. While this has resulted in a reduced initial scope of projects, the market is active in the areas of cyber security and digital signatures.

Corporate

This function includes the costs associated with being a listed entity, as well as certain centralised costs such as Group legal, COSEC, marketing and audit fees amongst others.

The main costs before tax included in this function are:

- Employee costs and board fees totalling R5.9 million.
- Legal and consulting fees including the costs to be listed on the JSE, advisory fees and Group audit fees totalling R2.1 million.
- Amortisation of the LawTrust and Parsec purchase price allocation totalling R4.3 million.
- Finance costs related to the funding procured for the LawTrust acquisition totalling R2.6 million.

The Corporate running costs as well as the repayments on the Nedbank loan are recovered from the underlying business units.

OUTLOOK

Even though the SA government is introducing business friendly initiatives and injecting investment into infrastructure which will benefit the economy and Etion in the medium to long term, the South African market remains subdued. Etion has implemented various initiatives to reduce costs, increase responsiveness to market conditions and to re-focus business efforts to meet the challenge of thriving in the local landscape as well as growing international revenue. There is a clear demand for the products and services of Etion in the global market and this indicates a positive outlook for the group in the medium term with the drive into MEA and other markets.

For Connect, while data usage is proliferating, fibre rollouts volumes have slowed down over the past two years. The potential for growth in the market therefore remains strong for the next three to five years. We anticipate that this network "catch-up phase" will contribute to Connect's revenue in the medium term.

There is a visible increase in cyber security incidents reported in the media which is indicative of the market potential locally and globally. Cyber security risks are on the rise, creating an opportunity for our Etion Secure (LawTrust) suite of solutions that are designed to build trust in transactions defined by ensuring secure availability of business systems; positive identity of customers, staff and suppliers; data integrity, accountability of individuals and finally the privacy of personal and confidential information. Secure has entered a growth phase requiring continued investment in resources and operations to ensure world class capabilities and capacity to capitalise on the market opportunities in cyber security.

Movements in the geopolitical arena to lessen dependence outside of the Middle East are envisaged to increase demand for defence and cyber security solutions in the Middle East. Our investment emanating from operating in this market for over a decade positions us well to benefit from this trend.

We also see increasing demand for IoT solutions for low powered networks that operate smart cities, and smart mines are driving demand for devices that operate on such networks.

The outlook for the second half of the financial year remains subdued, and in this context, our focus remains on improving our working capital, optimising operating costs and leveraging our IP to drive our internationalisation strategy.

Notes to the Financial Information

1. Changes in significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 March 2019, except as described below.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 March 2020.

Background

With effect from 1 January 2019, IFRS 16 replaced IAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The new lease standard has fundamentally changed the accounting treatment for operating leases. Historically, operating leases (e.g. the 85 Regency Drive Office Building lease) did not result in any assets or liabilities being recorded, with only the lease payments reflected in the income statement.

The new standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Going forward there is a single, on-balance sheet accounting model that is similar to current on-balance sheet finance lease accounting, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with an asset for the right-of-use. In other words, lessees will appear to become more asset-rich but also more heavily indebted. There are also changes in accounting over the life of the lease, with companies now required to recognise a front-loaded lease expense pattern, even when they pay constant annual rentals. Following implementation, depreciation is raised on the right-of-use assets while the lease liability will gradually decrease by the actual lease payments made.

IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the group as a lessor are not different from those under IAS 17.

Adoption and transition

The Group retrospectively adopted IFRS 16 on 1 April 2019 with an adjustment to the group's opening 1 April 2019 reserves and, as permitted by IFRS 16, did not restate its comparative financial results. Accordingly, the Group's previously reported financial results up to 31 March 2019 are presented in accordance with the requirements of IAS 17 and for 2020, and future reporting periods, are presented in terms of IFRS 16. On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019. This incremental borrowing rate was calculated for each legal entity in the group utilising the external funding rate of each entity.

***Practical expedients applied*:**

In applying IFRS 16 for the first time, the group used the following practical expedients permitted by IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases provided there was no option to extend the term
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The group's leasing activities and how these are accounted for:

The group leases various buildings, office space, and equipment. Rental contracts are typically made for fixed average periods of between three – ten years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 April 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right of use asset and a corresponding lease liability.

Extension and termination options:

Extension and termination options are included in some of building and office space leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are considered in the lease term when there is reasonable certainty that those options will be exercised. The assessment of reasonable certainty is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

IFRS 16 key financial impacts

The single lessee accounting model which comprises IFRS 16's most material impact for the group results in an increase of R31.879 million in total assets, net increase of R30.421 million in total liabilities and an increase in reserves (net of deferred tax) of R1.458 million due to the release of the IAS 17 straight-line lease liability provision. The total undiscounted operating lease commitments as at 31 March 2019 amount to R46.233million, the lease liability as at 1 April 2019 amounted to R32.452 million, this difference primarily relates to discounting the operating lease commitments balance at the group's weighted average incremental borrowing rate which ranges from 10.5% – 11.3%, due to the varying nature of the leased assets, lease term and risk profile of the subsidiaries within the Group.

Table 1: Impact on the group's summarised statement of financial position on 1 April 2019

	31 March 2019	IFRS 16 transition adjustment at 1 April 2019	1 April 2019
	R'000	R'000	R'000
Assets			
Property, plant, equipment and right of use asset	48 455	**32 452**	**80 907**
Deferred tax	20 945	**(573)**	**20 374**
Other financial and non-financial assets	523 044	**-**	**523 044**
Total assets	592 444	**31 879**	**624 323**
Equity and Liabilities			
Equity			
Share capital	259 541	**-**	**259 541**
Retained Income	83 753	**1 458**	**85 216**
Total Liabilities	249 150	**30 421**	**279 571**
Total equity and liabilities	592 444	**31 879**	**624 323**

Table 2: Impact on the group's summarised statement of financial position on 1 April 2019

	31 March 2019	IFRS 16 transition adjustment (net of deferred tax)	1 April 2019
	R'000	R'000	R'000
Share Capital	259 541	-	259 541
Retained Income	83 753	1 458	85 211
Total attributable to equity of the company	343 294	1 458	344 752
Non-controlling interest	-	-	-
Total Equity	343 294	1 458	344 752

2. Headline earnings per share

for the 6 months ended 30 September 2019

	6 months ended 30 September 2019 (Unaudited)	6 months ended 30 September 2018 (Unaudited)	Year ended 31 March 2019 (Audited)
	R'000	R'000	R'000
Profit/ (Loss) attributable to ordinary shareholders	5 434	(2 386)	(2 730)
Basic earnings per share (cents)	0,97	(0,5)	(0,53)
Diluted basic earnings per share (cents)	0,97	(0,5)	(0,53)
Reconciliation of headline earnings:			
Profit / (Loss) attributable to ordinary shareholders	5 434	(2 386)	(2 730)
Loss/ on disposal of property, plant and equipment	10	3	13
Total tax effect of adjustments	(3)	(1)	(4)
Headline earnings attributable to ordinary shareholders	5 441	(2 384)	(2 721)
Headline (loss)/earnings per share (cents)	0,97	(0,5)	(0,53)
Diluted headline (loss)/earnings per share (cents)	0,97	(0,5)	(0,53)
Weighted average number of shares in issue	558 082 266	470 821 554	516 037 573

4. Inventories

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
	R'000	R'000	R'000
Inventories comprise:			
- Finished goods	**69 306**	109 029	87 500
- Work in progress	**1 584**	32 482	3 595
	70 890	141 511	91 095
Provision for slow moving inventories	**(4 489)**	(2 692)	(3 546)
	66 401	138 819	87 549

The current level of inventory shows a decrease of 52% since our prior comparative period. This decrease, on the back of increased revenues for the current period, has directly influenced our cash balance at the end of our current interim period. The decrease in finished stock holding is attributable to reduced stock holdings in Etion Connect of R33 million. The R30.9 million reduction in Work in Progress inventory is due to the successful delivery to a key customer.

Management continues to focus on improving inventory turnover and have defined targets to optimise.

5. Trade and other receivables

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
	R'000	R'000	R'000
- Trade receivables	**139 275**	130 659	155 443
Gross trade receivables	**148 943**	137 204	164 505
Loss allowance	**(9 668)**	(6 545)	(9 062)
- Deposits	**1 034**	1 413	1 034
- Retention debtors	**51**	228	44
- Sundry debtors	**1 090**	1 070	867
- Prepayments	**4 574**	3 827	5 416
- Value added tax	**389**	6 786	37
- Project receivables (Work-in-progress)	**-**	3 058	-
- Other receivables	**464**	-	789
	146 877	147 061	163 630

Gross trade receivables have increased by 8% compared to the prior interim period. This is in line with the improved revenue performance and increase in the debtor's book within Etion Secure. In accordance with the Group's accounting policy the simplified approach has been applied in calculating the expected credit losses (ECLs) at each reporting date. The provision for impairment has increased by R3.1 million due to an increase in collection challenges associated with a key Digitise client. Management continues to proactively monitor and manage debtors' days to improve the Group's working capital management.

6. Interest bearing borrowings

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
	R'000	R'000	R'000
Non-current	**55 129**	69 990	32 967
- Properties loan	**28 822**	29 649	29 255
- Medium term loan for Secure transaction	**-**	35 177	-
- Instalment sale agreements	**2 532**	5 164	3 712
- ROU Lease liabilities	**23 775**	-	-
Current	**48 082**	37 777	43 523
- Properties loan	**826**	473	622
- Medium term loan for Secure transaction	**36 164**	8 486	40 009
- Bridge financing loan for Secure transaction	**-**	25 962	-
- Instalment sale agreements	**2 622**	2 856	2 892
- ROU Lease liabilities	**8 470**	-	-
Total	**103 211**	107 767	76 490
- Nedbank Properties loan	**29 648**	30 122	29 877
- Nedbank medium term loan for Secure transaction	**36 164**	43 663	40 009
- SASFIN interim loan for Secure transaction	**-**	25 962	-
- Instalment sale agreements	**5 154**	8 020	6 604
- ROU Lease liabilities	**32 245**	-	-

The increase in interest bearing borrowings when compared to the previous comparative period and year-end 31 March 2019 is due to the implementation of IFRS 16 and the recognition of Right-of-use liabilities in various business across the Group. The resolution of the Nedbank covenant breach was not completed at reporting date and as a result the loan remained classified as a current liability. Subsequent progress thereof is contained in “Events subsequent to period end”.

7. Trade and other payables

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
	R’000	R’000	R’000
- Trade creditors	**88 032**	119 654	92 595
- Accrued leave	**5 339**	7 084	6 671
- Sundry creditors	**1 786**	105	695
- Value added tax	**1 226**	3 120	7 168
- Advance payments	**3 311**	5 913	5 955
- Accruals	**20 702**	9 874	17 060
- Operating lease straight line adjustment	**-**	617	2 031
	120 399	146 367	132 175

Trade and other payables have decreased by 18% in line with lower inventory holdings.

8. Cash generated from operations

	30 September 2019 (Unaudited)	30 September 2018 (Unaudited)	31 March 2019 (Audited)
	R'000	R'000	R'000
Profit before taxation	**5 447**	(2 386)	629
Adjustments for:			
Depreciation and amortisation	**12 529**	7 451	19 687
Interest income	**(1 126)**	(698)	(1 717)
Finance costs	**5 656**	5 996	11 262
Increase in provision for slow moving and obsolete raw materials	**943**	(2 621)	(1 766)
Increase/(decrease) in provision for impairment of trade receivables	**606**	5 690	3 204
Loss on sale of property, plant and equipment	**10**	-	13
Operating lease straight line adjustment	**-**	-	1 414
(Decrease)/increase in provisions	**(648)**	(2 318)	(3 498)
Increase/(decrease) in provision for impairment of other financial assets	**54**	-	-
Unrealised foreign exchange differences - cash and bank equivalents	**343**	6 309	7 162
Unrealised foreign exchange differences - debtors	**(2 829)**	(342)	(66)
Unrealised foreign exchange differences - trade creditors	**1 851**	(3 271)	3 499
Changes in working capital:			
Inventories	**20 205**	47 923	(6 474)
Contract assets	**6 460**	-	(1 113)
Trade and other receivables	**18 976**	(4 217)	6 455
Trade and other payables	**(11 601)**	32 941	(7 256)
Contract liabilities	**1 480**	-	2 353
	58 357	(5 389)	33 770

Statement of Compliance, Basis of Preparation and Audit Report

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements except where stated otherwise. The directors take full responsibility for the preparation of the condensed interim financial statements.

PREPARER

These unaudited Condensed Consolidated Interim Financial Statements results were prepared by Nerishini Naidoo CA (SA) under the supervision of Elvin de Kock FCMA, the Chief Financial Officer.

GOING CONCERN

The directors have reviewed the group's budget and cash flow forecast for the year to September 2020. On this basis and in light of the group's current financial position, the directors are satisfied that the group will continue to operate for the foreseeable future and have adopted the going concern basis in preparing these reviewed provisional financial results.

DIRECTORATE

The following changes were made to the board of directors:

NS Mjoli-Mncube resigned on 31 May 2019 as non-executive director and chairperson of the Board of Directors.

Events subsequent to Period End

Following the covenant breach, announced in the FY19 results, management has been working closely with Nedbank to resolve queries and provide the required clarity on the Group's outlook.

We are pleased to confirm that the bank has responded positively, with the breach being condoned, and the loan covenants maintained and accepted by the Group with effect from 25 November 2019. Accordingly, the loan will be reclassified from current liabilities to non-current liabilities in our FY20 year end results.

As a proactive step necessitated by the prevailing conditions and the extended procurement cycles in our target markets, the strategic review of the Safety and Productivity Solutions (Digitise) business as referenced in the FY19 results has been completed. The impact of the restructure will be fully accounted for in our March 2020 year end results.

With the exception of the preceding matters, there are no other events which are material to the financial affairs of the Group.

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BY ORDER OF THE BOARD

Teddy Daka	Elvin De Kock
Chief Executive Officer	Chief Financial Officer
27 November 2019	

DIRECTORS

CP Bester
T Daka* (CEO)
Dr. SJ Khoza
EC De Kock* (CFO);
M Janse Van Rensburg
RC Willis
CF Maherry*
**Executive*

COMPANY SECRETARY

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DESIGNATED ADVISER

Exchange Sponsors 2008 (Pty) Ltd

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd